VZCZCXRO3019
RR RUEHBZ RUEHDU RUEHJO RUEHMR RUEHRN
DE RUEHTO #1010/01 2980811
ZNR UUUUU ZZH
R 240811Z OCT 08
FM AMEMBASSY MAPUTO
TO RUEHC/SECSTATE WASHDC 9474
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
RUEHLO/AMEMBASSY LONDON 0266
RHEHNSC/NSC WASHDC
RUEAIIA/CIA WASHDC

UNCLAS SECTION 01 OF 03 MAPUTO 001010

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: ETRD EINV ECON PREL PGOV MZ
SUBJECT: MOZAMBIQUE ECONOMIC AND GOVERNANCE RANKINGS SHOW
LITTLE RECENT PROGRESS

REF: A. MAPUTO 927
¶B. MAPUTO 748
¶C. MAPUTO 354

¶1. (SBU) SUMMARY: Recent ratings and rankings point to relative weaknesses in Mozambique's business climate. According to Transparency International, corruption is still "rampant," while the World Bank's indicator Doing Business 2009 ranking shows that Mozambique's business climate is not improving as quickly as its regional competitors. Fitch's recent report on Mozambique's Sovereign Credit Rating also points to an uncompetitive business climate despite strong donor support and a private sector dedicated to reform, which keeps this rating stable. The Mo Ibrahim Foundation Index of African Governance, released October 6, shows little progress compared to other sub-Saharan African countries, ranking Mozambique 22 out of 48 countries. These indicators of underperformance provide new ammunition for the U.S. Mission, donor community, and private sector to demand more rapid economic reform, with an eye on attracting FDI. These indicators also help inform the Mission's economic team currently drafting the Country Assistance Strategy to support the acceleration of Mozambique's economic reform agenda. END SUMMARY.

TRANSPARENCY SCORES MOZAMBIQUE BELOW NIGERIA
ON CORRUPTION

¶2. (U) Mozambique's Transparency International's 2008 Corruption Perceptions Index score dropped for the first time in five years from 2.8 to 2.6. A result of less than three indicates that corruption is perceived as "rampant." In previous annual indices, Mozambique's score remained at 2.8, leading many observers to state that despite strong rhetoric, citizens believe that the government was not making progress in combating corruption. The fall in Mozambique's ranking leaves the country with the lowest corruption perceptions index of any of its six neighbors, with the exception of Zimbabwe. In comparison, Mozambique now rates equally with countries such as Eritrea, Ethiopia, Guyana, Libya, and Indonesia, but falls significantly lower than other southern African countries such as South Africa (4.9), Namibia (4.5), Botswana (5.8), and even below Nigeria (2.7). The index was based on seven surveys carried out by Transparency International in Mozambique during 2008, and does not take into account the recent arrest of former Minister of Interior Manhenje, which many observers consider to be the most significant corruption-related arrest in Mozambican history (Ref A).

'DOING BUSINESS' RANKING ALSO SUFFERS

¶3. (U) The World Bank's Doing Business 2008 ranking shows Mozambique has fallen two places since 2007 to the 141st position out of 181 economies. Mozambique performed poorly in 5 of the 10 sub-categories used to determine the ranking, specifically, "Starting a Business," "Dealing with Construction Permits," "Registering Property," "Protecting Investors," and "Paying Taxes." Mozambiqe lost the most ground relative to other countries due to procedural steps (10), duration in days (26), and cost of starting a business in Mozambique. Liberalization of the business license procedures for certain types of small businesses (reported Ref C) did not appear to have an impact on Mozambique's ranking. In relation to its regional competitors in SADC, Mozambique continued to backslide, ranking tenth out of fourteen. Even by sub-Saharan Africa (SSA) standards, Mozambique ranks 18th out of 46.

FITCH MAINTAINS SOVEREIGN RATING OF 'B/B '

¶4. (U) Fitch, the international credit rating organization, takes a longer view of economic progress, giving Mozambique a non-investment grade rating of 'B,' chiefly because of its strong export-driven economic growth, FDI, and donor support, contributing to a doubling of GDP per capita since 2000. The rating reflects a "long track record of sound economic policies and reforms, strong foreign direct investment (FDI) into natural resources exports, and solid donor support..," and places the country in a peer group of countries like Benin, Cameroon, Dominican Republic, Suriname, and Uganda. Like the World Bank, Fitch raises concerns about Mozambique's

domestic business environment, noting in a September 26 report that it is weak even in comparison to regional neighbors (specifically referencing the World Bank "Doing Business Indicators" ranking). Nonetheless, Fitch appears reasonably satisfied with the GRM's strategic plan for improving the business environment, ranking the government's effectiveness at 40.3, well ahead of other SSA countries like Kenya (30.3) and Nigeria (14.7). The report also highlights Mozambique's position as the most aid-dependent SSA country rated by Fitch, suggesting that the G19's direct support (Ref B), which accounts for over 50 percent of the GRM budget, lends significant stability to its sub-investment grade rating.

MO IBRAHIM GOVERNANCE RANKING STAGNANT

¶5. (U) In early October, the Mo Ibrahim Foundation announced that Mozambique ranked 22nd out of 48 countries in its Index of African Governance, a comprehensive system of ranking sub-Saharan countries based on 57 individual criteria in the general sub-categories of safety and security, rule of law, transparency and corruption, participation and human rights, sustainable economic opportunity, and human development. The country's lowest sub-category score was in the category of sustainable economic opportunity, which measured capacity for wealth creation, macro-economic and financial stability, commercial infrastructure, and environmental sensitivity. Compared to other SADC members, Mozambique (12th out of 16 members) overall outperformed only Zimbabwe, Swaziland, Angola, and the Democratic Republic of Congo. The data for this year's ranking was captured in 2006, while last year's ranking relied on 2005 data in which Mozambique held the same rank. Mozambique's rank has slipped from a high of 16th based on data collected in 2000, followed by an 18th place ranking based on 2002 data.

--- -
PRIVATE SECTOR DEMANDS BUSINESS CLIMATE REFORM
--- -

¶6. (SBU) USAID-funded private sector umbrella association CTA has used slippage in the "Doing Business" ranking to express their dissatisfaction with the pace of reform and to renew calls for the Government of Mozambique (GRM) to take further steps to improve the business climate and attract FDI to develop value-added exports and move away from a dependence on natural resource-based exports (Note: Exports of Aluminum, Hydropower, and Gas account for 90 percent of Mozambique's exports. End Note). In a September 18 meeting, the CTA pressed Prime Minister Luisa Diogo to introduce reforms in six areas: dropping minimum capitalization to start a business, simplifying the tax regime, adopting a single window electronic customs payment system, implementing new regulations for hiring foreign workers, introducing new tax incentives for the tourism sector, and committing to Open Skies by 2010.

¶7. (SBU) The Mission has been working to push the GRM to liberalize in each of these areas for some time. The multi-donor Private Sector Working Group, chaired by the USAID Director, works with CTA and the Ministry of Industry and Commerce (MIC) to focus on key reforms and meets quarterly to monitor progress. Efforts in technical assistance on taxation are underway this year via Department of Treasury's Office of Technical Assistance (OTA), with very positive early indicators of progress. Customs liberalization continues to be a USAID focus to ameliorate the business climate. In meetings with the Ministries of Labor and Education, the Charge has pushed for liberalized hiring regulations, particularly in the area of work permit issuance for third-country nationals, which continues to be an impediment for the Mission, the American School, USAID and CDC implementing partners, and foreign investors in general who require technical personnel not available within the domestic labor pool. USAID continues to work towards developing the tourism sector and engages on policy issues in the agricultural sector. Finally, the Political/Economic Section is in the process of facilitating pre-negotiation discussions between EEB/TRA/AN and Mozambique's Civil Aviation regarding an Open Skies agreement.

--- -----
COMMENT: RANKINGS SLIPPAGE PROVIDES NEW AMMUNITION
--- -----

¶8. (SBU) While recent ratings and rankings of Mozambique

suggest negative trends, particularly in the area of business climate, in reality, the GRM is simply not progressing with its transparency and economic reform agenda as rapidly as its neighbors or other SSA countries. These indicators, along with Ref B concerns expressed by the G19 donor group, provide the Mission, donor community, and private sector with new ammunition in our ongoing push to accelerate the GRM's reform agenda on a variety of fronts in an effort to expand FDI, which in the future should allow Mozambique to become less dependent on donor support and more economically independent. The GRM's current development policy formulation is based on guidelines established in their five-year planning documents, without elaborating specific or coordinated objectives. These various indices and indicators help inform the Mission's economic team, currently drafting the Country Assistance Strategy, to better focus USG resources to assist the GRM improve Mozambique's business climate.
Chapman